



1917

Economic Conditions Governmental Finance United States Securities

NEW YORK, DECEMBER, 1917.

An Eventful Month.

THE past month has been full of events of great importance in the war and in our relations to the war. The first casualty list was received from American troops in the trenches, bringing home the reality of war as nothing else can. Conditions in Russia have become more chaotic, with the Kerensky government overthrown and the country apparently facing civil war. The disaster to the Italian armies is a serious disappointment to those who were hoping for an early peace. It will not alter the general purposes of the western Allies, but it may strengthen the position of the military party in Germany and thus prolong the war. The overwhelming attack upon Italy was made possible by the cessation of operations on the Russian front. On the western front the events of the month were favorable to the British and French troops, and the general situation was improved by a formal declaration of war against Germany on the part of Brazil. Notwithstanding the confidence that the German people may have in their military strength, there is much evidence that the commercial classes are gravely apprehensive that the antagonisms arising from the war will seriously affect the trade relations of the country when peace is restored. The longer the war is continued and the more belligerents are drawn actively into it, the more serious these after-effects will be. The interest of Germany in the recovery of its foreign trade is shown by the recent action of the Reichstag in passing an immense grant of aid to the German steamship companies to enable them to buy and build ships rapidly as soon as peace is established. Ships

alone cannot command foreign trade. Every year that the war continues will make it more difficult for Germany to recover the trade position she formerly held. She cannot recover it by force. Her shipping grant will be useless unless she intends to make peace upon terms that will convince the world that her military ambitions are abandoned, and that the spread of German influence is not a menace to all other nations.

Second Liberty Loan.

The total of subscriptions to the Second Liberty Loan in each Federal Reserve District is shown below, with the percentage of over-subscription based on the quota assigned by the Treasury:

	Total Subscriptions Received	Quota	Per Cent. of Over- subscription
Boston	\$ 476,950,050	\$ 300,000,000	59%
New York ...	1,550,453,450	900,000,000	72%
Philadelphia .	380,350,250	250,000,000	52%
Cleveland	486,106,800	300,000,000	62%
Richmond	201,212,500	120,000,000	68%
Atlanta	90,695,750	80,000,000	13%
Chicago	585,853,350	420,000,000	39%
St. Louis	184,280,750	120,000,000	54%
Minneapolis ..	140,932,650	105,000,000	34%
Kansas City .	150,125,750	120,000,000	25%
Dallas	77,899,850	75,000,000	4%
San Francisco	292,671,150	210,000,000	39%
Total	\$4,617,532,300	\$3,000,000,000	54%

The Secretary of the Treasury accepted 50% of the over-subscription, making the actual issue \$3,808,766,150. The allotment was made as follows:

SUBSCRIPTIONS.		ALLOTMENT.	
Up to and including \$50,000.....	\$2,488,469,350	100%	\$2,488,469,350
Over \$50,000 up to and including \$100,000.	359,865,900	90% but not less than \$50,000 bonds	323,879,600
Over \$100,000 up to and including \$200,000	242,220,800	75% but not less than \$90,000 bonds	181,665,800
Over \$200,000 up to and including \$1,000,000	756,586,700	60% but not less than \$150,000 bonds	455,690,300
Over \$1,000,000 up to and including \$8,000,000	470,425,600	50% but not less than \$600,000 bonds	235,582,300
Over \$8,000,000 up to and including \$30,000,000	249,963,950	41.20% but not less than \$4,000,000 bonds	103,071,200
\$30,000,000	50,000,000	40.8152%	20,407,600
Total subscriptions	\$4,617,532,300	Total allotment	\$3,808,766,150

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By the terms of the loan, 2% of the subscriptions accompanied the application, 18% were to be paid November 15, 40% on December 15, and 40% on January 15. The actual payments to November 26 aggregated \$2,535,617,664, or about 66%. These figures include Treasury certificates converted.

When the loan closed the Treasury had outstanding \$2,320,493,000 of Treasury certificates, of which \$935,197,000 fell due in November and have been redeemed. The series of \$300,000,000, due December 15th, has been called for payment on December 6, and the series of \$400,000,000, due December 15, is called for payment on December 11. The series of \$685,296,000, due December 15, will be paid on that day.

Allowing for the redemption of all Treasury certificates issued prior to November 1st there is about \$1,500,000,000 remaining of the proceeds of the second loan, besides which there is a cash balance of approximately \$1,800,000,000. Presumably the Treasury will want to run very strong in cash at all times, but unless disbursements increase rapidly the funds on hand should last until February. After that it should be practicable to provide funds for at least a month or two through the sale of Treasury certificates, which would carry the next bond issue into the spring. Ordinary disbursements for November, to the 26th, aggregated \$454,273,363 and special disbursements, including loans of foreign governments, \$435,596,813. The estimates of the Treasury are for an expenditure of over \$12,000,000,000 in the year ending June 30 next on our own account and loans of \$7,000,000,000 to allies. Actual expenditures for ourselves have been about \$1,758,000,000, with loans of \$2,241,629,750. The Treasury officials adhere closely to the estimates, and they alone are in position to know how fast expenditures can be made in the last half of the year, but with about \$4,000,000,000 expended and loaned in nearly five months, it seems improbable that actual disbursements in the next seven months will reach \$15,000,000,000.

Liberty Loan Bonds in the Market.

Liberty loan bonds of both issues have been marketed in considerable amounts and at lower prices than the 3½s had reached before the 4 per cents were issued. At present the former are selling around 99 and the latter around 98. The offerings come from all over the country, and are a natural result of the strenuous campaigning for subscriptions. Every locality has had a large task to raise its quota, and under the pressure of the canvass it has frequently occurred that people were constrained to subscribe for more bonds than they felt able to carry. It was a community effort, appealing to local pride as well as national patriotism, and rather than fail to do what was expected of them they subscribed, with the intention of selling part in New York at whatever loss it might be necessary to

take. It is difficult to see how this situation can be avoided when it is necessary to push solicitation so hard, but by this time it is becoming pretty well understood that Wall Street does not bear all the responsibility for the market price of government bonds.

It is not at all clear that the situation would be materially different if the interest rate was higher, although as the rate on government issues is raised the selling pressure upon these will be relaxed by being extended to other investments. If the country is forced to take more bonds than it has learned how to absorb, something will be thrown on the market. Moreover, the sale of either government or other securities on the market does not relieve the situation. It is only moving capital around a circle, without creating any more of it, just as the shifting of labor from one employer to another by the offer of higher wages does not make any more labor available. It cannot be too often repeated that whether obtained directly or indirectly the funds for the war must be provided by new savings.

Industrial and Financial Coordination.

The turn of events in Europe has undoubtedly impressed upon the people of this country the necessity of preparing for a long conflict. The end is not in sight, and it will be the part of wisdom for the United States to lay its plans for participation upon a basis which can be maintained indefinitely. The full powers of the country cannot be exerted immediately, for it is only by degrees that the people can be brought to understand the part which as individuals they are required to play. They have to be educated to the war task. They have to learn that a great war, calling upon this country for eighteen or twenty billions a year, cannot be carried on by the government alone, in a purely official capacity, without interfering with the business or pleasures of the people.

It is natural for the people to go along in their accustomed ways, trying to do business as usual and live as usual, until they are shown what the government wants of them. It is for the government to coordinate the productive powers of the country and direct them into the channels where they will count for most. There is general appreciation of the fact that it is a stupendous task to raise twenty billion dollars in a year, but the public is slow in grasping the fact that it is also a stupendous task for the government to get twenty billion dollars worth of work done in a year. The problem would be immensely simplified if the public could see clearly that if the government is to take over labor and materials to this extent, individuals must curtail their demands to approximately the same extent, and that when they do this they will have the money to buy the government bonds.

This curtailment of private expenditures will be most effectively brought about by having the

government exercise its priority rights to such essentials as labor, coal, materials and transportation. If there is not coal enough to go around it is clearly proper for the government to determine what industries shall go without, and as it does so public expenditures in those lines will be automatically curbed. If steel is not available for automobiles the public perforce will not buy automobiles, and so by the control of industry private expenditures can be brought largely under control.

This authority, if exercised with discretion, need not be so disturbing to industry as at first appears likely. In England few establishments have been actually closed down; usually it has been found possible to utilize them for some kind of war work, and it is good economy to make changes and add equipment for that purpose. Moreover, it should be understood that goods which are made for the export trade, although in the luxury class, may be paying for commodities which are necessities to us. When articles of luxury are shipped to Argentina and help pay for hides and wool, the labor upon them is in effect producing hides and wool for our own consumption. If we don't settle our exchanges with goods we must settle in gold.

Time a Necessary Factor.

In short, the end in view being to reorganize the industries of the country on a war basis, the government must take the lead and give order and system to the rearrangement. It would be demoralizing and wasteful to shut down the great automobile factories, scattering the workmen, breaking up their homes, compelling the sacrifice of property, disturbing business conditions, and destroying values. The desired result is better accomplished by changing them to the manufacture of trucks, aeroplanes, and munitions. Furniture factories are being utilized in similar fashion, and so in every community there are establishments which can be converted to war business or made to serve indirectly the present needs. When they stop making things for peace trade the public will necessarily stop buying such things, and since employment will remain full more money will be free for the loans.

The industries must not be crippled; they must be changed over to war work. Time is required to do this, and while no time should be lost nothing is accomplished by working with misdirected energy. When a railroad is crowded with business to a state of congestion it loses in efficiency. Not as many cars get over the line as with traffic restricted to its capacity. This country can carry on the war indefinitely and put steadily increasing weight and efficiency into it if its operations are well-ordered. But it cannot throw millions of men upon war work except as it takes them off of other work, and it cannot pay billions into the Treasury except as it curtails expenditures in

other directions. It is just as important to plan upon one side of the problem as the other, and nothing but confusion will result from going ahead without a careful coordination of efforts.

The industrial resources of this country are very great, but the ordinary supply of labor was fully employed when this country entered the war. Everything cannot be done at once; some things are of more importance than others, and should have right of way, but an attempt to drive operations too hard will inflate costs, embarrass the whole industrial situation and increase the difficulty of raising money. This country without question can raise all the money required to pay for all the work that can be done, but congestion in industry and congestion in borrowing will not promote results. It does not help to have labor attracted from one equally essential industry to another, or to have loans brought out faster than they can be absorbed.

Time is a factor in big undertakings which cannot be eliminated, and this country can afford to take the time that is necessary to work with foresight and method. Time in this war is on our side. We are not blockaded, we have access to the markets of the world, we are not in danger of running out of necessities. If Germany can afford to have this war go five years we surely can, but we should plan to grow stronger every year. Such a policy will fill the country with confidence, not only as to ultimate military success, which nobody doubts, but as to the course of business during the war and afterward.

Increasing the Labor Supply.

Our ability to get quickly and effectively into the war depends upon our ability to release men to the armies, and at the same time turn more men upon the production of ships, aeroplanes, heavy guns, and ammunition. How can labor be found to give the increased output that will shorten the war and save lives? There is no longer any danger of unemployment, of substituting one class of labor for another, or reason for class jealousy. There is work for all.

There are three classes of labor in the country that have not been fully drawn upon. (1) The movement to employ high school boys on the farms was developed far enough last summer to show that there are further possibilities in it. (2) The movement to utilize old men, who have dropped out of active employment. In ordinary times it is difficult for men over 45 years of age who are thrown out of employment to find new places. The Employment Bureau of the Employers' Association of Chicago finds employment free of charge for men of this class. In the month of August it placed 1,303 of them in permanent places, and in the

month of September 1,600 of them. This is labor that without a special effort may be lost.

But the big, potential supply of labor, far surpassing in quality and quantity that of old men and boys, lies in the unmarried women from 20 to 40 years of age, of the class who do not ordinarily seek employment for pay. Here are several millions of alert, capable persons who in the present social atmosphere will not work for wages, who are consumers but not producers. The movement to bring these women into industry has started, but it is not progressing fast enough. It needs encouragement and organization; it needs not only the personal economic appeal but the patriotic appeal, and the same social approval and pressure that applies to the enlistment of young men in the army and navy.

A correspondent who writes to us very earnestly on this subject puts the case so well that we quote from him as follows:

A vital, healthy woman who contributes one hour a day, two days in the week to the Red Cross is not performing any adequate service to her country. If our sons can go to the front as privates our daughters can go to the offices and factories as privates.

The economic pressure that gradually brought these women to the factories of England and France, is not and will not be present in America.

I believe a Constructive Labor Program which will bring these women into industry is absolutely vital. I believe a study of this problem will bring results of practical national value many times larger and more important than the recent railroad efficiency movement.

Two factors are necessary for success in such a labor program: (1) Patriotic propaganda, which will cause women to enlist under oath in our industrial army, for duration of war, in 48 hours a week, 52 weeks in the year, jobs at the same piece rate wages as men are paid. (2) An organization for handling enlisted women. Such an organization should consist of men and women of practical, employment-bureau experience who will fit the worker to the job and the job to the worker.

I think the patriotic appeal to every woman in the United States should be: Will you personally earn money to invest in Liberty Bonds, to support the Red Cross, and to give to the Y. M. C. A.? You are not doing your best for your country when you extract the money for patriotic purposes from the men of the family. Give your best for your country by increasing production by filling a paid position. This is the best sign—the pay envelope that goes with the position—that the position is a necessary cog in industrial machinery. Then—use the money for two purposes: (1) To buy Liberty Bonds, to support the Red Cross, and the Y. M. C. A. (2) To contribute to one's personal expense and thus release the money of the men in the family for Liberty Bonds.

A slogan for the next Liberty Bond issue: *Every woman in the United States to buy a Liberty Bond with money she has earned.*

Let the pay envelope be a badge of honor, a badge of patriotism, showing that the women of the United States are increasing production.

Women who do enlist should have some special military insignia or badge.

Paper Money Finance.

We are continually in receipt of letters, some of them from bankers, asking if it would not be a good plan for the government to issue

several billions of paper money to pay war expenses. These correspondents suggest that it would "save interest," "increase the amount of money in circulation," "increase bank deposits," "make it easier to raise loans," etc., etc. It is strange how persistent are these ideas about the efficiency of fiat money, because there never was a trial which did not demonstrate that they are fallacies. Money in itself is an instrument of exchange, a trade facility; it is not final compensation for anything. The government wants money with which to buy war supplies and the people who sell the supplies want money to buy things. The satisfaction of all these wants depends upon production, and that depends upon the labor supply, together with efficient organization and equipment. When the industries are already operating at capacity, the output cannot be increased by increasing the supply of money. Any further gains must come by improvements in organization, equipment or methods, and by shifting labor from non-essentials to essentials. It befogs and confuses the whole subject to talk of relieving such a situation by printing money. More money or purchasing power in any form can only increase the competition for labor and materials, raising costs in terms of money and debt without making any more labor or materials available.

One of our correspondents expresses the opinion that an additional billion dollars of legal tenders could be readily floated on the credit of the government and on present gold reserves. But what would one billion amount to in expenditures of twenty billions a year? It would be only a beginning, and once a beginning was made there would be no logical stopping place. Arguments for each additional billion would be as strong as for the first. The country would be launched on a sea of paper money and all attempts to maintain parity with gold would have to be abandoned. That would put our three billions of gold money practically out of use and this would make more irredeemable paper necessary. The more the latter depreciated the greater the volume would have to be, in order to make the government purchases and to carry on the business of the country. The cost of the war would be enormously increased, as the cost of our civil war was increased by the issue of the greenbacks.

Not Money But Savings Wanted.

This country has plenty of mere facilities for making payments. Industry is not halting for want of means to make payments; it is limited on all sides by scarcity of men and materials. As a matter of fact we make payments with bank cheques rather than money. The correct method of financing the war is by having the

individual citizens accumulate bank credit, and transfer this credit to the government, the latter in turn transferring it in payment of its purchases. The transfers are simple enough, the problem is in getting the individual citizens to understand that they must create by savings the means to supply the government's needs. We must create the purchasing power, and transfer it to the government, abstaining from its use ourselves.

There is no royal way by which a government can finance itself. This paper money theory assumes that the government can create the purchasing power it needs, without the help of the people, and allowing the people to go on using purchasing power for their private purposes, as usual. But as we have seen, an attempt to use such an amount of purchasing power results in a demand for labor and materials greater than can be supplied. Whether the demand takes form in paper money or bank credit the effect is to raise all costs and depreciate the purchasing medium. Borrowing to lend to the government without cutting down our own expenditures, is like giving the government an order upon a certain limited stock of commodities, and then withdrawing the commodities for our own consumption.

Issues of irredeemable paper money constitute a forced loan upon the public, without interest, and are never resorted to except as an expedient when the regular methods of raising money have failed.

Apropos of paper money the Russian Official Bulletin of recent date has shown how the authority of the Russian State Bank to issue notes has been increased from time to time. Prior to July 27, 1914, it was limited to an issue of 300,000,000 rubles without gold cover. Since then the limit has been raised as follows:

	Rubles
July 27th, 1914, up to.....	1,500,000,000
March 17th, 1915, up to.....	2,500,000,000
August 22nd, 1915, up to.....	3,500,000,000
August 29th, 1916, up to.....	5,500,000,000
December 27th, 1916, up to.....	6,500,000,000
March 4th, 1917, up to.....	8,500,000,000
May 15th, 1917, up to.....	10,500,000,000
July 11th, 1917, up to.....	12,500,000,000

Conscripting Capital.

A good deal is said about the "conscripton" of capital, and it is well to have a clear idea of what is meant, and of just what it is practicable for the government to do in this respect. The phrase is often used as though the authority of the government to take property as it takes men was disputed, and with the implication that capital is spared through influence or favoritism.

This idea is due largely to a mistaken conception of capital, and of the service which capital renders whether in public or private

hands. The capital of the country does not exist in forms that permit of its being seized and turned into the treasury. Capital exists for the most part in productive property, i. e., in farms, mills, railways, machinery, and all the equipment for carrying on industry. The greatest service to the country from these properties is obtained by having them operated with the highest possible efficiency. The government doesn't want property in these forms, but the products that come from them. It would be a great boon to have production increased and a disaster to have it generally decreased.

The seizure, or conscription, of these properties in the sense of taking them out of the hands of the present owners is utterly impracticable. The government could not assume their management. It has no staff competent to operate them. If it took them over it could do no better than arrange with the present owners to go on operating them. It would have to make terms which would enable the management to satisfy wage-earners, provide working capital to buy materials and supplies, and make repairs, replacements, improvements and enlargements, as these were necessary to keep the industries up to the highest efficiency.

In short the "conscription of capital," when reduced to practical terms means the fixing by governmental authority of the terms under which private property and private managerial ability will be devoted to public work. This is being generally done. In some cases fixed prices are agreed upon, in others the government pays cost, plus a percentage for the services of plant and organization. In some instances the latter is the only practicable plan, but its weaknesses are well known. Experience has always shown that as a general rule the best results are obtainable under the private management of industry. It gives an incentive to individual effort, stimulates efficiency and promotes progress.

The seizure of properties by the government would not put money in the Treasury, or increase the supply of what the government wants. A levy of taxes so heavy that it could not be paid out of current earnings would reduce the working capital of industries at a time when they need it all, compel them to borrow while impairing their credit, and in many instances force the sale of properties on a market without buyers. In short, it would bring ruin and panic upon the country, demoralize industry when the country's salvation depends upon the industrial output, and destroy values at a time when of all times it is important to sustain confidence. It would be literally killing the goose that lays golden eggs. Nothing can take the place of men in the armies, and rich and poor alike are conscripted for that service, but capital in the form of productive property must be used as it exists and must be

handled by people who know how to produce results from it. "Conscription" cannot be applied to it in any other sense than as applied to current earnings, and enough of current earnings must be left to finance the business adequately; otherwise efficiency will decline, production will fall off, the ability to pay taxes will diminish, and the war power of the country will be lowered.

Private Capital Does Public Service.

The fundamental error of those who call for the "conscription of capital" is in not comprehending that private capital engaged in production for the government or for the public market is rendering the same service as though it was publicly owned, and probably rendering it more economically. The assumption that the government could take over industries on a large scale, even by confiscation, and supply itself with products more cheaply than it can buy them of privately owned industries is purely an assumption. The record of government operations does not justify it.

A speaker for the Socialist party in the recent New York city campaign is reported as follows:

"You capitalists, your capitalistic government, that comes into our homes and conscripts the lives of our sons, so shall you conscript wealth.' We would summon Mr. Carnegie and say to him, 'Andy, how much do you require to live? Not on the east side, not in the Bronx, but just where you are, on Fifth Avenue? We would not take from you one lump of sugar, but how much, \$15,000 or \$20,000 or \$25,000, do you require yearly to keep your antiquated soul in your capitalistic body?' Then we would take the rest of his income. That is not being done, and that is why we Socialists do not buy war bonds."

This shows the misconception of economic facts which is responsible for most of the agitation. The orator proposes to allow Mr. Carnegie to continue living as at present, but to confiscate the remainder of his income for public purposes—as though all the remainder was not used for public purposes now! The only portion of any person's income which is devoted to himself and withdrawn from the common fund is that portion which is consumed for his own support and pleasure. The real grievance of society against the rich is not on account of what they save and invest productively, but on account of what they spend needlessly and extravagantly upon themselves. What they put into business is used to increase production, to multiply the supply of things of common consumption, and it is a fair presumption that it is used more efficiently, and with better results to the public, by the leaders of industry than it would be by a government officered by campaign orators.

It is true that economies are effected and gains made by bringing competing industries into harmonious relations during the war under government supervision, but this is some-

thing far from government management. The industries are still in the hands of experienced managers and scores of the ablest business men in the country are giving their time to the government service in handling the situation. There is co-operation and assistance by the public in all that the government is doing. What Mr. Hoover and his assistants are able to do in dealing with the food situation, and what the railway officials working together are able to do with the railways, is no evidence as to the results of permanent government administration in the industries.

Depression in the Stock Market.

The stock market has had too much selling for the demand since last June and the decline became precipitate with the bad war news from Italy and Russia, reaching for many stocks the lowest figures since the outbreak of the war. Of late the market has rallied and been well sustained.

In some quarters the ups and downs of the stock market are regarded with indifference, as concerning only a group of speculators, but they are of more importance than that. A decided trend of the market is significant of public opinion, and it is not encouraging or helpful at a time when great financial burdens must be borne to have the market from day to day reflecting gloom and pessimism. Every one is to some extent influenced by suggestion, and it is not inspiring to the owners of property to see interests corresponding to their own sell lower and lower, even though they have no intention of selling their own holdings. These are unusual times, people are easily unsettled in their opinions, and in a long, wearing contest the psychological factor is the decisive one.

The decline has been the result of various influences. Ordinarily there is a constant flow of new capital into the market for investment, but the government loans have taken this up so closely that free buying power has been greatly reduced, while at the same time there have been offerings by people wishing to convert their capital into the loans. In short, selling pressure was increased and buying power was weakened. The news from Italy and Russia indicated a long war, and with visions of repeated bond issues and higher taxes the buying side of the market was attractive to few.

The taxation already adopted, with the talk of higher levies in the future, has involved the situation in uncertainty. The course of the market shows clearly that investors do not rate the war profits as high as some of the legislators do. The latter look upon them as cash in hand, but in fact they have been largely reinvested in extensions and improvements, or are represented by larger inventories, and their final value is yet to be determined. The taxes

are a definite liability requiring in many instances that dividends be suspended or money borrowed. Market opinion is discounting these undivided profits and taking account of the uncertainties which will surround business in the future. These factors are entitled to the consideration of legislators as well.

The fact is that despite great activity in industry, a good showing of earnings and rising values for everything else, ownership in the chief industrial and transportation properties of the country is not valued on the market as high as a year ago. This situation is evidently due to market conditions and to lack of confidence in the future, rather than to anything that has actually occurred affecting these properties. Apprehensions as to the future are doubtless exaggerated. The countries of Europe have been in the war three years, but their essential industries are prosperous. The stock market in London was less affected by the adverse news from Russia and Italy than the market in New York. Germany goes on raising loan after loan under conditions far more difficult than any we are likely to experience.

The productive power of the United States is increasing every day, and this is the vital consideration affecting the future. The inducements to install labor-saving methods and to develop scientific processes in industry were never so great and our industrial progress was never so rapid as now. The country is working under tremendous stimulus, and while much of the effort does not count for the present accumulation of wealth, it is developing new powers which will remain when the war wastes are over. Nothing is worth so much to a country as an increase in the productive capacity of the people themselves. The lessons in thrift, in giving as well as in saving, and in community organization, will make us a more efficient and therefore more prosperous people. The country is not going backward by reason of the war. Its people and its industries will be fully employed, under remunerative conditions, and values will find their level accordingly. A stock market boom which would absorb capital is undesirable, but on the other hand there is no occasion for pessimism about the future of American industry.

Financial Conditions.

The money market has relaxed somewhat since the November 15th payment on the government loan was made. As about 85 per cent. of the allotment for the New York district was paid in full that factor is well out of the way, and the situation looks clear for the next few months, except as the transfer of large sums may cause temporary stringency. Offerings of commercial paper on the market are light, makers in recent months having resorted to the banks where they

have established lines of credit. Time loans on collateral are unchanged at $5\frac{1}{2}$ to 6 per cent. The country has gone through a period of enormous transactions with remarkable ease. The regular trade of the country has been fully accommodated, and although the stock market has been depressed it has not been because money was not available. There have been ample reserves of credit at all times.

Credit expansion has continued and although it is not excessive as compared with the resources of the banking system, it is the part of wisdom to take careful notice of the effect of the government's borrowing upon the banking situation. Temporary borrowing of the banks for the government loans is undoubtedly necessary, but the country should be brought face to face with the task of paying up as the war proceeds. The loans of the New York Clearing House banks were \$3,756,000,000 on August 4th and \$4,756,000,000 on November 17th, but declined to \$4,575,000,000 on November 24th. The total earning assets of the twelve Federal reserve banks on August 3rd were \$374,266,000 and on November 23rd they were \$979,141,000. This period covered the season when bank loans always go up, but the expansion was due in the main to the war financing. These figures should be reduced before another loan is brought out.

The New York district has paid up \$950,000,000 of the \$1,163,000,000 allotted to it, and the rest of the country drew on New York balances freely in making payments. Arrangements were made by which in some instances New York funds were deposited to the credit of the Treasury in the Federal reserve bank of New York on account of subscriptions in other districts. Although this procedure deprived the reserve banks of other districts of deposits accredited to their districts the funds were actually in New York, and a double transfer was thereby avoided. It is highly desirable in handling these immense sums that book transfers shall be used wherever possible, and the bulk of the government's disbursements are made here.

The abstract of the reports of national banks for their condition on September 11, 1917, prepared by the Comptroller of the Currency, gives the first showing of reserve conditions since the new provisions of law went into effect. The figures show that central reserve banks had legal reserves averaging 14.04%, against 13% required, reserve city banks held 10.33%, against 10% required, and country banks held 7.39%, against 7% required. Besides these reserves in the Federal reserve banks, they held \$493,609,000 cash in vault, and the net amount due from other national banks was \$1,292,000,000. Country banks appear to be carrying about as much in cash and with their city correspondents as before. The increase in their deposits with the reserve banks from June 20 to September 11, was from 5.79% to 7.39%.

The principal items in the aggregate statement for all national banks on September 12, 1915, September 2, 1916 and September 11, 1917, compare as follows:

	1915	1916	1917
Loans & Disc.	\$6,756,680,000	\$7,859,837,000	\$9,055,248,000
United States obligations ..	781,729,000	729,777,000	1,158,982,000
Other bonds ..	1,219,214,000	1,624,627,000	1,863,621,000
Due from banks and bankers.	1,724,621,000	2,247,967,000	2,806,414,000
Cash in vault.	842,709,000	768,123,000	493,609,000
Div. deposits..	5,426,610,000	6,708,883,000	679,370
Bills payable and redisc...	105,719,000	91,893,000	285,104,000

The decline in cash is due to the transfer of reserves to the Federal reserve banks, and the increase in bills payable and discounts to increasing use of the Federal reserve banks.

In order to facilitate the payment of income and excess profits taxes the Secretary of the Treasury has announced an issue of Treasury certificates bearing 4 per cent. interest which will mature on June 25, 1918. These certificates will be receivable at or before maturity by revenue collectors in payment of the above taxes.

In the November Bulletin we referred to reports of an incipient land boom in some sections of the country, as a result of high prices for farm products. This paragraph has brought considerable correspondence, which shows that there is no speculative movement in lands worthy of mention. The prevailing sentiment in all lines is one of caution, and where lands are changing hands it is for immediate possession and use.

War Savings Stamps.

The organization for the sale of the War Savings Stamps authorized by Congress is now completed, except as to some local details, and the campaign to sell \$2,000,000 has begun. The stamps are in two denominations, 25 cents and \$5. A Thrift Card is furnished, which has spaces for 16 stamps, and when these spaces are filled the card may be exchanged, with the payment of odd cents, for a \$5 stamp.

The \$5 stamps are to be attached to a folder, known as a War Savings Certificate, which has blank spaces for 20 stamps. If these are all filled between December 1, 1917, and January 31, 1918, the cost to the purchaser will be \$82.40, and on January 1, 1923, the Government will pay the owner of the certificate \$100—a net profit to the holder of \$17.60. This is based on an interest of 4% compounded quarterly. The amount of War-Savings Stamps sold to any one person at any one time shall not exceed \$100 and no person may hold such stamps to an aggregate amount exceeding \$1,000.

The stamps are redeemable at post offices at any time at a lower rate of interest. The full particulars of the plan are now available in printed matter, and need not be detailed here.

The plan of distribution has been worked out to avoid concentration at Washington, and secure the greatest possible degree of local interest and responsibility, together with proper co-ordination and supervision. There will be six federal directors, who will give their entire time to the work, each of whom will have two Federal Reserve Bank Districts in his charge. Each state will have a State Director, from whom the organization will reach down into the counties and smaller communities. These State Directors are men of the highest business standing, selected for their known ability for a task of this kind, and will give their entire time to the work.

The Railway Problem.

The demands of the trainmen for more pay are just in time to be passed up to the government authorities with the other features of the railway situation. The railway officials have advised the President that they will be guided by his judgment in the matter and the officers of the brotherhoods are understood to have taken practically the same attitude. This question would seem therefore to be reduced to a determination of how much more wages the men shall receive and what compensatory rate increases the railways shall receive.

The railway problem, however, is much larger than a question of wages or even of revenues. Above all else it is a question of economical and efficient transportation service, and the necessities of the country are requiring that treatment of the subject shall be undertaken in a large way. The railroads have been developed by private enterprise and private capital, and on the whole it has been a wonderful development; but in recent years it has not kept up to the growth of the country. For the last ten years operating costs have tended to increase faster than earnings, and railway investments have been less in favor.

Such capital as the railways have raised in the last ten years has been procured mainly by borrowing, but this makes the position of the shareholders more precarious and cannot be continued indefinitely without affecting the position of the bondholders unfavorably. In every other business it is considered necessary to good credit that there shall be a proper relationship between borrowed capital and proprietor's capital, and if this is not maintained the ability to borrow is curtailed. Loans upon real estate are commonly restricted to about one-half the value of the property, and the railroads to be in sound credit and able to borrow at favorable rates, should be able from time to time to sell their stock to the public in such amounts as to keep proprietor's capital approximately equal to borrowed capital. In order to do this, however, there must be a sufficient margin of net earnings above dividend requirements to give assurance that dividends

will be maintained. Such surplus earnings when returned to the properties are not lost to the public, for they take the place of increased capitalization upon which dividends or interest would have to be paid.

In brief, the situation in the last ten years has not been such as to attract capital to the railways in the amounts required to enable the companies to plan for the future in an adequate manner. They have borrowed large sums for immediate needs, but traffic grows very fast in this country, and to make proper provision for it, and do so economically, expenditures should be made in advance of immediate needs. Such expenditures cannot be made unless present earnings show a reasonable surplus above current requirements. The upshot is that in the face of a great emergency the railway facilities of the country are not equal to the demands upon them. Moreover, with the government taking all the capital in sight, and with construction and operating costs mounting higher and higher, the outlook for an adequate program of development in the future is not encouraging.

Co-ordination Instead of Competition.

No matter what mistakes have been made in the past, or who is most to blame for them, it is time now for everybody to look at the country's transportation problem with large vision. What men do under the pressure of an emergency by common consent often shows the way to permanent reforms. The Federal reserve banking organization has followed and developed the general plan of Clearing House co-operation—which the bankers hurriedly conceived and adopted in the face of panic. And so upon the entrance of this country into war, the officials of the leading railways, realizing the absolute necessity of getting more service out of the railways than they were capable of giving if operated independently, turned the management of all of them over to a central board with full powers to operate them as one system. That idea has been developed until the competing interests of the individual companies in current traffic has been practically lost sight of.

This is revolutionary, not only from the standpoint of the railways but from the standpoint of the public. It has been the theory of all our legislation that the railways must be made to compete, but when we face the necessity for the highest efficiency it is found that they must work together. Opinions change rapidly when there are no alternatives. Congress will doubtless be asked this winter to legalize the co-operative methods which have been put into effect, at least for the period of the war, but the gains which are demonstrated by a closer integration of the transportation service should never be abandoned.

Constructive Program Wanted.

The country needs a broad constructive program for the transportation service, and all parties at interest should co-operate in its development. The amount of new work which can be done in war time is limited, but nothing could give assurance of general prosperity after the war like a plan for railway development. The plan should begin at the terminals, which is the point of weakness now, and make ample provision for the expansion of traffic and the accommodation of all roads. It should include docks and harbor improvements, and the equipment and connections necessary to utilize and correlate the inland waterways with the railway system. The old hostility of the railways to the waterways should cease, and their facilities should be linked up. The rivalries of rail systems should be subordinated to the general purpose of affording the best facilities to the public in the most economical manner. It is probable that in some cases the interests of the public would be served by an amalgamation of railway systems, by which weak lines, which standing alone are unable to compete in character of service with strong rivals, would be taken over by the latter. In this manner the credit and earning power of the strong lines would be used to equalize service at reasonable rates, to all sections. The difficulties of such a policy would be very much less now than in the past because of the low market values which have ruled for railway shares in recent years. The owners of railway shares are more interested in having values stabilized and moderate earnings assured than in contending for any monopoly values which favorable location or superior terminals have given them.

The effect upon the business situation of an extensive program of construction work to follow the war is a consideration not to be valued lightly. A state of hesitation and depression in the transition period would cost the country enough to pay for a vast amount of useful work.

In order to give the element of certainty required for such a comprehensive plan, in the present state of railway credit, and to obtain the desired psychological effect in the business world, it would be necessary to have the co-operation of the government, possibly to the extent of a grant of credit. The government, having control of the charges, would be safe in giving such assistance, and the economies effected would provide the income for interest and a sinking fund to retire the securities that were issued. It would be essential, however, to the success of the policy that the owners of railway shares should be assured that new obligations ahead of the stock would not be to the detriment of the latter.

Government Ownership.

The objection to a proposal for government assistance to the roads is that in some quarters it will stimulate the agitation for government ownership and management. It will be said that if the government is to aid the roads it should own them, but that does not necessarily follow. It is not suggested that the government should aid the companies for the sake of their shareholders, but because the railway problem has become national in its scope and interest, and because the government, by its exercise of control over charges, is an essential factor in it. The attitude of the government affects the ability of the companies to finance themselves on the scale required.

The people who advocate government ownership do so of course in the belief that transportation costs to the public would be reduced, but such a result would be contrary to all experience in governmental management. Furthermore, and most important of all, it overlooks the value of individual ownership in stimulating enterprise and improvement in the development of the transportation system. There is opportunity for initiative and invention in railway operations as elsewhere. Changes are constantly being made. They have been revolutionary in this country in the last twenty years. The improvement of locomotives in the last five years has been remarkable. This progress is stimulated by the efforts of the companies to reduce their expenses and save money to the stockholders, and it is a most significant fact that the privately owned railways of the world lead the government-owned railways in the adoption of such improvements.

Germany affords an instructive comparison in the efficiency of state and private management. The German people have shown great enterprise and efficiency in their private industries, but not in the conduct of the state railways. Mr. W. M. Acworth, an English authority upon railways, who was on this side in the early part of the year, serving as a member of the special Canadian Commission upon railways, was invited to appear before the Senate Committee on Inter State Commerce at Washington, which was considering the railway question. He referred incidentally to the Prussian railway system as follows:

"While American companies have revolutionized their equipment and methods of operation, Prussia has clung to old equipment and old methods. This is typical. In all the history of railway development it has been the private companies that have led the way, the State systems that have brought up the rear. Railroading is a progressive science. New ideas lead to new inventions, to new plant and methods. This means the spending of much new capital. The state official mistrusts ideas, pours cold water on new inventions and grudges new expenditure. In practical operation, German railway officials have taught the railway world nothing. It would be difficult to point to a single important invention or improvement, the introduction of which the world owes to a state railway."

The argument for government ownership is a purely theoretical one. It assumes that the roads will be operated by the government as efficiently as under private management, but the conditions are against that result. There is a mystery about the powers of the government which is misleading to many people. The government has the power that goes with authority, but it does not have the ability to operate a farm, a factory or a railroad more economically than private owners. On the contrary, the conditions under which public business must be done place government operations at a disadvantage. There is a division of authority and responsibility, and a want of continuity in policies, which prevent the best results. The final authority is with Congress, a constantly changing and cumbersome body, and everybody below Congress works under limitations. The conservation policy which keeps our great resources in water-power tied up, illustrates how confusion of councils paralyzes public administration. The highest officials serve short terms, and subordinates hold for life, with promotions under the general rule of seniority. Precedent is of enormous importance, because the official who follows it is protected from criticism, while one who introduces innovations assumes the risks of failure without the prospects of personal reward.

In short, the qualifications of the government are much better for supervision and criticism than for initiative and management. The government's oversight and authority are needed in dealing with the railway situation, but it is not necessary for the government to assume all the functions of a proprietor. The most economical and satisfactory results will be gained by combining public supervision and co-operation with the flexibility and efficiency that are best obtained under private administration.

General Business Conditions.

The fact that the railways are handling more traffic and that coal consumption is increasing shows that industry is still expanding, notwithstanding the difficulties that hamper it. Interest centers in the ability of the railways to move the business offered to them. For two years the industries have been at work enlarging their capacity; but the physical capacity of the railways has been but slightly increased in that time. By improving the operating organization and pooling equipment the roads have increased their efficiency, but their track and terminal capacity is limited and they are short of locomotives and cars. The locomotive builders are largely occupied with orders for Russia and France, and the car shops are operating at only about one-half of their capacity, for want, it is said, of steel. In the present situation, however, there is little encouragement for any of the individual companies to order cars. A company has no control over its own cars and does not

have any more for use because it owns a great many. The remedy is clearly to be found in a central supply of cars owned either by an independent corporation in which the railways are stockholders or by the government. Hundreds of new coal mines have been opened, but few of the mines are operating to capacity—for want of cars. The shortage of coal cuts down the production of many of the industries, and the shortage of coke, which is acute for the same reason, is seriously limiting the production of pig iron. The demand for iron would take several times the output of the furnaces, which again shows how the vital capacities of the country are being restricted. The industries cannot expand beyond the limits fixed by the supply of pig iron, coal and railway service. If government funds can be used to remedy this situation it will be the most effective use to which at this time they can be applied. Here is the

narrow place in the road, and if it can be widened the energies of the country will produce immensely greater results.

Branches in South America.

A branch of this Bank was opened November at Caroccos, Venezuela. This is the eighth branch in South America.

The American International Corporation has taken over the old house of G. Amsinck & Co., New York, founded in 1856, commission traders, operating mainly in Latin America. The firm is a leading one in its line, having an annual turnover of about \$30,000,000 and about 4,000 correspondents. The business has been acquired as in line with the plans of the National City Bank and American International Corporation for the expansion of American trade.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS NOVEMBER 23, 1917. (In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kan. City	Dallas	S. Fr'sco	Total
Gold coin and certificates in vault.....	31,698	333,776	21,106	29,073	6,144	5,551	33,900	5,362	14,234	3,983	12,531	32,682	530,045
Gold Settlement Fund.....	6,016	28,666	40,511	50,490	40,417	13,545	72,007	25,640	15,894	30,443	27,504	35,529	386,662
Gold with foreign agencies.....	3,675	18,112	3,675	4,725	1,837	1,575	7,350	2,100	2,100	2,625	1,838	2,888	52,500
Total gold held by banks.....	41,389	380,554	65,292	84,288	48,398	20,671	113,257	33,102	32,228	37,056	41,873	71,099	969,207
Gold with Federal Reserve Agents.....	30,461	174,058	50,644	48,121	31,940	43,851	81,692	38,847	29,325	30,186	29,039	35,784	623,948
Gold Redemption Fund.....	1,000	5,000	950	31	594	573	462	754	595	514	1,035	41	11,549
Total gold reserves.....	72,850	559,612	116,886	132,440	80,932	65,095	195,411	72,703	62,148	67,756	71,947	106,924	1,604,704
Legal tender notes, Silver, etc.....	5,362	42,658	1,023	679	158	305	2,162	614	310	37	528	222	54,058
Total Reserves.....	78,212	602,270	117,909	133,119	81,090	65,400	197,573	73,317	62,458	67,793	72,475	107,146	1,658,762
Bills discounted, Members.....	37,574	351,111	22,914	30,149	16,623	12,653	97,805	17,334	10,262	8,375	18,080	18,080	656,002
Bills bought in open market.....	30,234	50,340	25,604	31,082	12,937	4,727	5,949	7,786	9,044	4,536	10,818	16,848	209,905
Total bills on hand.....	67,808	401,451	48,518	61,231	29,560	17,380	103,754	25,120	19,306	37,658	19,193	34,928	686,907
U. S. Government long-term securities.....	610	2,180	550	8,053	1,311	897	21,007	2,233	1,860	8,849	3,972	2,440	53,962
U. S. Government short-term securities.....	2,456	26,122	2,858	4,824	2,364	5,383	3,779	1,693	1,810	2,222	2,654	1,685	57,850
Municipal Warrants.....		1,017	44	12		278			25		46		1,422
Total Earning Assets.....	70,874	430,770	51,970	74,120	33,235	23,938	128,540	29,046	23,001	48,729	25,865	39,053	979,141
Due from other F. R. Bks. net.....		9,514	2,831			171	10,109		2,601	8,689		896	11,872
Uncollected items.....	16,222	60,973	30,636	21,706	20,613	17,121	44,022	16,898	11,690	24,410	17,277	20,957	302,525
Total deduction from gross deposits.....	16,222	70,487	30,636	24,537	20,613	17,292	54,131	16,898	14,291	33,099	17,277	21,853	314,397
Redemption fund against F. R. bank notes.....										400	137		537
All other resources.....					35	100		1,470	990		599	109	3,293
TOTAL RESOURCES.....	165,308	1,103,527	200,515	231,776	134,973	106,730	380,244	120,731	100,730	150,021	116,353	168,161	2,956,130
LIABILITIES													
Capital Paid in.....	5,701	18,028	5,590	6,751	3,585	2,665	8,603	3,444	2,581	3,372	2,783	4,033	67,136
Government Deposits.....	7,292	31,292	4,227	28,563	12,220	3,196	40,674	1,705	7,132	12,753	11,048	36,309	196,411
Due to members—reserve account.....	78,715	657,097	82,623	104,785	42,257	34,673	159,931	46,682	41,271	69,889	46,395	62,330	1,426,648
Due to nonmember banks clearing acct.....		10,973		78		485	5,984		36	2		4,251	22,291
Collection Items.....	14,311	52,094	27,285	16,815	16,469	9,137	27,807	13,592	4,614	12,162	6,915	13,968	215,169
Due to other F. R. Bk's net.....	1,086		7,093		9,063			3,894			1,803		
Total Gross Deposits.....	101,404	751,456	121,228	150,241	80,009	47,491	234,396	66,355	53,053	94,806	66,161	116,858	1,860,519
F. R. Notes in actual circulation.....	57,604	331,167	73,151	74,687	51,379	56,574	137,024	50,932	45,096	45,599	47,409	47,270	1,015,892
F. R. Bank Notes in circulation, net liability.....										8,000			8,000
All other Liabilities incl. Foreign Govern't credits.....	599	2,876	546	97			221			244			4,580
TOTAL LIABILITIES.....	165,308	1,103,527	200,515	231,776	134,973	106,730	380,244	120,731	100,730	150,021	116,353	168,161	2,956,130

(a) Total Reserve notes in circulation, 1,015,892.

(b) Difference between net amounts due from and net amounts due to other Federal Reserve Banks, 11,872: The Gold Reserve against net deposit liabilities is 62.65; Gold and lawful money reserve against net deposit liabilities 66.15. Gold Reserve against Federal Reserve Notes in actual circulation, 62.65.

(c) Bills discounted and bought; municipal warrants: 1-15 days 527,138; 16-30 days 66,300; 31-60 days 147,035; 61-90 days 121,132; over 90 days 5,724. Total 867,329.

THE NATIONAL CITY BANK OF NEW YORK

"City Bank Service."

THE Income and War Excess Profits Tax laws involve many perplexing problems for the business man. To aid in the solution of these problems THE NATIONAL CITY COMPANY has organized a complete Tax Department under the supervision of experts.

This department has already published the following literature on this subject :

1. Text of the Tax Law fully annotated and indexed for convenient reference.
2. Analysis of the Law as applied to individuals, partnerships and corporations.
3. Analysis of the Law as applied to non-resident aliens and corporations.
4. A chart showing the tax liability upon individual net incomes ranging from \$2,000 to \$3,000,000.
5. A pamphlet of Examples, showing how the provisions of the Income Tax Law are specifically applied.

Any of the above will be sent upon request.

In addition to this service the Company will be glad to offer suggestions as to the best methods of building a reserve to meet the War Tax payments on June 15, 1918.

The Company not only deals in bonds and Short Term Notes, but also handles a broad range of Acceptances which are particularly suitable for the investment of accumulating reserve funds.

Please mention key number B-62.

The National City Company

National City Bank Building, New York

CORRESPONDENT OFFICES

PHILADELPHIA, PA. 1421 Chestnut St.	BOSTON, MASS. 10 State Street	CHICAGO, ILL. 137 So. La Salle St.	SAN FRANCISCO, CAL. 424 California St.
PITTSBURGH, PA. Farmers Bank Bldg.	ALBANY, N. Y. Ten Eyck Bldg.	LONDON, ENG. 36, Bishopsgate, E. C. 2	LOS ANGELES, CAL. Hibernian Bldg.
WILKES-BARRE, PA. Miners Bank Bldg.	BALTIMORE, MD. Munsey Bldg.	CLEVELAND, OHIO Guardian Bldg.	DETROIT, MICH. Dime Bank Bldg.
KANSAS CITY, MO. Republic Bldg.	BUFFALO, N. Y. Marine Bank Bldg.	ST. LOUIS, MO. Bank of Commerce Bldg.	WASHINGTON, D. C. 741-15th St. N. W.
DENVER, COLO. First Natl. Bank Bldg.	SEATTLE, WASH. Hoge Bldg.	PORTLAND, ORE. Railway Exchange Bldg.	MINNEAPOLIS, MINN. McKnight Bldg.
ATLANTA, GA. Trust Co. of Georgia Bldg.		NEW ORLEANS, LA., 303 Baronne St.	

